

DEPARTMENT OF HEALTH AND HUMAN SERVICES
Public Health Service
Indian Health Service
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INDIAN HEALTH SERVICE CIRCULAR NO. 91-10

Development, Implementation, and Operation
of the
Indian Health Service Supply Management System

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1. Purpose. This circular provides policy and guidelines for the development, implementation, and operation of the Indian Health Service (IHS) Supply Management System. The system consists of the Division of Supply Management (DSM), Office of Administration and Management (OAM), IHS, and a network of five Regional Supply Service Centers (RSSCs) serving multiple Areas. This circular is to be used in conjunction with the Indian Health Manual, Part 5, Chapter 6, "Supply Management - Central Operations."

- 2, Definitions

- A. Regional Supply Service Center. A facility comprised of professional supply management and material handler personnel that provides technical and material support (pharmaceutical, medical, and other expendable supplies) to designated multi-area IHS medical facilities including participating IHS cost reimbursement contractors.
- B. Regional Supply Service Center Network. The IHS Supply Management System of five RSSCs located throughout the United States serves the entire IHS with common organization, standards, and information systems.

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- c. Centralization. A means of supply and inventory management that employs a single facility to support multiple customers.
 - D. Decentralization. A means of supply and inventory management maintained by individual service units.
 - E. Customer. The recipient of services and products of the IHS Supply Management **System**.
 - F. IHS Cost Reimbursement Contractors. For the purpose of this circular, this term refers to American Indian tribes administering health care facilities under the authority of Public Law (P.L.) 93-638, "Indian Self-Determination and Education Assistance Act." This term also refers to American Indian and Alaska Native (AI/AN) organizations administering health care facilities under the authority of P.L. 94-437, "Indian Health Care Improvement Act. I"
 - G. Product Standardization. The process used by health care professionals to evaluate and select supply items for stockage in RSSCs.
 - H. Service Fee. A percentage charge placed on the value of issues provided by an RSSC that produces sufficient monies to fund the operational costs of that RSSC.
3. Background. The costs of pharmaceuticals, medical, and other supplies represent a significant portion of the IHS annual budget. These costs will escalate annually, as the AI/AN population grows and the care that they receive requires more and more expensive pharmaceuticals and supplies.

Containing costs is the principal responsibility of the Quality Management's (QM) Supply Management Workgroup. This group of health care, supply, and procurement professionals selected from within the IHS and other Public Health Service (PHS) agencies, as well as a logistics consulting firm, was charged with examining and implementing improvements in the service, accountability and cost effectiveness of the IHS supply **system** to the IHS service units, health providers, and ultimately to the AI/AN customers. In its research and analysis phase, the Workgroup reviewed three studies of the IHS supply **system**, conducted over the past 2 years: two Office of the Assistant Secretary for Health (OASH) studies (1988, 1990), and a Logistics Management Institute 1990 Report. Each of these reports focused on the fact that IHS decentralized supply **systems** were more costly and less efficiently operated than the IHS centralized supply **systems**. These findings were further supported by internal data analysis of the IHS supply management reports.

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The cost of supply management in the decentralized supply systems' is reflected in the following performance measures:

- 0 lower fill rates
- 0 longer delivery times
- 0 more professional staff time devoted to supply activities
- 0 higher inventories
- 0 excessive amounts of inactive and outdated inventories
- 0 duplication of purchase orders resulting in duplication of effort
- 0 large numbers of open market purchases
- 0 high prices
- 0 less supply depth/expertise
- 0 little or no use of economies of scale in purchasing
- 0 lack of automation
- 0 greater space requirements

In addition, because supply management within both the Federal Government and the private sector is performed in a dynamic environment, where change is constant and new ideas are developed regularly, it was necessary to examine the opportunities presented by the use of such innovative techniques as prime vendors, electronic commerce/electronic data interchange, consignment purchasing, national buying groups, etc. The Workgroup also met with logistics planners from the Departments of Defense and Veterans Affairs, whose agencies are both currently undergoing changes in supply strategies.

An in-depth analysis of the various techniques mentioned above revealed that these applications are not presently suitable as alternatives to the IHS supply system. However, periodic reevaluation will be made to determine future applicability over time.

Focusing on the obvious benefits of centralization, and acknowledging that the current centralized supply programs within the IHS are recognized as model supply systems, the task of the Workgroup became one of expanding the concept of the existing supply centers into a regional network which would ensure equitable supply service throughout the IHS community. The following logic was applied in designing the appropriate configuration for the new supply system:

- A. Use the existing strengths of the IHS supply service centers in Ada, Oklahoma; and Gallup, New Mexico; and the PHS Supply Service Center (SSC).
- B. Establish RSSCs strategically near the largest concentration of service units within the RSSCs' designated supply areas, as well as, allowing for equal distance to the various service units, to the greatest extent possible.

- C. Allow each RSSC to manage a similar volume of stores stock per year. This volume should be large enough to take advantage of consolidated buying techniques where compatible with the customer focus of the particular RSSC.
- 4. Policy. The policy of the IHS is to provide equitable, reliable, timely, and cost effective supply service to all fHS supply customers, including eligible IHS cost reimbursement contractors.
- 5. Scope. This policy applies to all IHS Areas and service units.
- 6. Objectives. The objectives of the IHS Supply Management System are to:
 - A. Provide central direction and management in the IHS through the DSM.
 - B. Provide a network of RSSCs to serve the entire IHS supply system.
 - C. Define supply system responsibilities and staffing requirements for each organizational level including RSSCs, Area Offices, and service units, and assure adequate staffing to carry them out;
 - D. Implement supply management information systems to assist the supply operations of the IHS.
 - E. Implement and operate a program for product evaluation, standardization, usage review and quality assurance.
 - F. Implement and operate a consolidated/centralized purchasing system to maximize savings for the IHS Supply Management System.
- 7. Rationale for RSSC Site Selection. The following criteria determined conditions necessary for optimal benefits of RSSC locations:
 - A. Strategic Location. The RSSCs are to be located in Areas which have direct access to major ground transportation routes served by most carriers.
 - B. Consolidation of Buying Power. The RSSCs are to serve combined Areas with sufficient supply dollar volume to be able to consolidate purchases and achieve volume savings. This regionalization will also provide for economies of scale in the operating costs of the RSSC.
 - C. Appropriate Size for Customer Focus. The combined Areas are to yield a customer base of a size small enough to allow for effective, continuous and available customer service. It is important to balance the service requirements of the customers with the consolidated purchasing benefits to the system in order to maximize both without emphasizing one to the detriment of the other.

- D. Build Upon Existing Strengths. When cost effective, enlarge the capacity of existing RSSCs in order to serve additional Areas. In addition, use those supply methods and information systems proven, to be valuable in the design of all new RSSCs.
- E. Minimize Transportation Costs. The RSSCs are to be located in Areas that have access to major carriers on major routes to take advantage of potential savings. A location near a major airport that serves most of the region is important to meet emergency needs.
- F. Proximity to Users. The RSSCs are to be located nearest to the higher concentration of customers, including larger hospitals and clinics. This proximity allows for more readily accessible technical assistance and lower transportation costs.

8. Organization and Responsibilities.

- A. Management. The DSM, OAM, is responsible for planning, directing, and monitoring the overall IHS supply system.
- B. Supply Management Committee. The Supply Management Committee of the Administrative Quality Management Council advises the Associate Director, OAM, and acts to ensure equity, quality, timeliness, reliability, and customer orientation of the IHS supply system.
- C. Regional Supply Network. The regional supply network will consist of 5 RSSCs and the PHS SSC at Perry Point, Maryland. Each of the 5 RSSCs serves designated Areas as well as eligible IHS cost reimbursement contractors. Perry Point serves the entire IHS supply **system** and other Federal customers. The RSSC locations and their designated service jurisdictions include:

Anchorage RSSC

- o Alaska Area

Ada RSSC

- o Bemidji Area
- o Nashville Area
- o Oklahoma City Area

Phoenix RSSC

- o California Area
- o Phoenix Area
- o Tucson Area

Rapid City RSSC

- o Aberdeen Area
- o Portland Area
- o Billings Area

Gallup RSSC.

- o Navajo Area
- o Albuquerque Area
- o Keams Canyon 'Service Unit
- o Headquarters West

The DSM will be responsible; in conjunction with Areas served for the development and implementation of RSSCs in Rapid City. and Phoenix. Once the RSSCs are fully operational, the DSM will transfer operation of the RSSCs to the respective host Area Director. Operation of RSSCs located at Ada, Oklahoma; Anchorage, Alaska; and Gallup, New Mexico will be the responsibility of the respective host Area Director. The host Area Director is also responsible for implementing service to other Areas as outlined in this circular. Circular Exhibit 91-10-A provides the organizational structure and staffing patterns for the RSSCs.

- D. Regional Customer Service Board. Each RSSC will establish a Regional Customer Service Board to be appointed by each Area Director receiving service from the RSSC. The membership will include the RSSC Director and up to three members from each Area receiving services. Examples of persons to be considered for inclusion on the Board are: Executive Officers, service unit pharmacists, nurses, supply staff, and tribal contractors.

The Board should meet semi-annually, but no less than once a year. The focus on customer service includes review of the operating budget and service fee rate, responding to inquiries, suggestions for better service, and general oversight of the RSSC. The Board should monitor the effectiveness of the Regional Evaluation, Standardization and Usage Review Committees (RESURC); responsiveness of inventory management to requests for changes; and the equity of operations among the Areas served.

- E. Regional Evaluation, Standardization and Usage Review Committee. The IHS Supply Management **System** includes the implementation of a program for product evaluation, standardization, usage review and quality assurance.

The RESURCs utilizing health care professionals are to be established for each RSSC. These Committees will evaluate and select items that will be stocked by the RSSCs. They will also review product usage and make changes in items to contain costs and improve patient care. The DSM will monitor and provide technical guidance and assistance to these Committees.

The RESURCs are to be established for each of the following major groups. of supplies:

- 0 Drugs and Pharmaceuticals
- 0 Dental
- 0 Supplies
- 0 Medical Supplies
- 0 Laboratory
- 0 Radiology
- 0 Housekeeping
- 0 Subsistence and Dietary Supplies
- 0 Administrative Supplies and Forms

The Quality Assurance Specialists at each RSSC will serve as the chairpersons and coordinators for these Committees. The Committee meetings will be held at least annually. Membership will include representation by all Areas in each region and should consist of hospital, health center, area consultant and tribal facility members- where appropriate. Each Area will support these Committees by sending appointed representatives to all meetings.

The development of drug and supply formularies will enable an IHS-wide core formulary (list of drugs and supplies commonly used throughout IHS) to be established which will maximize procurement efficiency and improve supply forecasting of requirements.'

- F Area Office. The Area Office's supply management function remains intact and strengthened by the technical assistance available from the RSSC. The Area is responsible for the accountability of all supply management, direct and stores, within the Area. Each Area determines the supply funding requirements and participates fully with the RSSC in determining annual budgets. The Area will monitor the service unit supply system performance including annual physical on-site reviews at all service units, and tracking deficiency corrections for compliance with existing regulations, policies, and practices.

The Area has primary responsibility for developing staffing and space requirements for supply operations in each service unit and providing the resources to meet those needs.

- G. Area Supply Management Officer. The Area Supply Management Officer will be organizationally no lower than a Branch Chief, and be the staff person accountable for the performance of the supply function within the Area. He/she is responsible for the timely and complete submission of management reports to the DSM, for the arrangement of training and career development programs for supply staff in the service units, and for reporting deficiencies in the supply services to those in a position to correct them. He/she provides technical direction and support to all Area facilities and staff.

In Areas that operate the RSSC, the RSSC Director will serve as the Area Supply Management Officer.

- H. Service Unit. The service unit is responsible for all supply activities within the service unit. The service unit receives all incoming shipments, and documents receipts; issues, adjustments and/or disposals. The service unit is responsible for maintaining effective internal controls to assure the security of supplies. The service unit provides adequate space, staff and training : opportunities to allow for high performance of supply staff.
 - I. Service Unit Supply Officer. The service unit Supply Officer will report directly to the service unit Administrative Officer and is responsible' for maintaining the supply functions at the service unit. The service unit supply Officer works closely with the service unit staffs to determine replenishment levels for supplies, to establish a timely supply order process, and to dispose of outdated/deteriorated/unusable supplies. The service unit Supply Officer must provide orientation and training to all service unit staff.
 - J. Procurement. The host Area will delegate small purchase authority to the RSSC based on staff procurement certification levels, and provide oversight functions: Consolidated supply requirements contracts will be issued by PHS SSC and/or by a pre-determined Area/RSSC.
9. Information Systems. Two information systems will yield improved supply management information throughout the supply network. Both systems will eventually link RSSCs, Area Offices, and service units electronically. They will also link with other Government supplysources and commercial vendors using a newly emerging telecommunications process called electronic data interchange and health industry standard computer-to-computer transaction formats.
- A. The Supply Accounting and Management System (SAMS) provides for the day-to-day supply management and accountability of supply inventories. This management information system provides real time management of inventories and allows facilities to reorder stock when needed, The SAMS is operational at the supply centers in Ada, Oklahoma; Gallup, New Mexico: and Anchorage, Alaska. The SAMS will also be utilized at newly established RSSCs.
 - B. The Acquisition and Resource Management System (ARMS) will interface with SAMS, provide data on all items purchased, and allow for consolidation of all IHS items purchased. The ARMS will speed and improve the in-house acquisition process for getting items into inventory. The system has a target completion date of fiscal year 1993.

10. System Procedures.

- A. Intra-Agency Agreement. An I&a-Agency Agreement will be used to establish a working relationship between the Area managing the : RSSC and the Area served by that specific RSSC.
- B, Budget Process for Supplies. The RSSC Director will develop an annual supply budget for each facility in conjunction with Area/facility staff prior to September 1 of each year.
- C. Funds Availability. Funds will be transferred to the managing Areas and advised to the RSSCs at the beginning of the fiscal year.

For fund transfers, the Area Office responsible for providing funds to the RSSC will request the Division of Resource Management, OAM, IHS, to transfer the funds, on a non-recurring basis, to the RSSC financial management accounting point no later than 10 days following the determination of requirements.

For IHS cost reimbursement contractors, funds will be withheld from the total contract at the beginning of the contract period and advised to the RSSC by the appropriate Area accounting point.

The RSSC Director is not authorized to issue supplies in excess of established allotments without prior approval of the Area Directors involved in the transfer of funds.

- D. Budget Status. Based upon established budgets, an allowance is established for each facility. The allowance will be decreased monthly based on the issue value and service fee. The RSSC will provide each .Area/facility with a monthly budget status/projection report.

Based upon the monthly budget status/projection report, the RSSC Advice of Allowance will be adjusted on a quarterly basis, in conjunction with respective Area Offices.

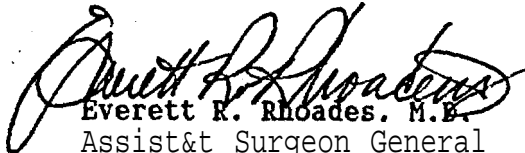
- E. RSSC Operating Budget and Pricing Policy. The RSSC will develop an annual operating budget for review and comment by the Director, DSM. The operating costs will be used to set a service fee rate to be defined by the Regional Customer Service Board of the RSSC. The Board will review the service fee rate semi-annually and adjust the rate appropriately.

Charges will be based upon the acquisition costs of supplies plus the service rate charge.

- F. Addressing Grievances and Resolving Disputes. Grievances and disputes that cannot be resolved by the Regional Customer Service Board, RSSC or Area involved, are to be forwarded to the Director, DSM. The Director, DSM, 'will coordinate resolution of the grievance/dispute with appropriate Area staff and Headquarters staff.

11. Supply Management System Standards and Evaluation Process.

- A. Standards of Performance Measurement. Supply performance standards are used to monitor system performance. These standards relate to investment, utilization, and customer support provided. Elements included in these standards are (1) inventory turnover rate, (2) inactive stock, (3) issue fill rates, (4) percent of items obtained from inventory, and (5) overstocked inventory value.
- B. Evaluation Process. Refer to the Indian Health Manual, Part 5, Chapter 6, Section 2, "Introduction to Supply Management and Performance Standards," for information on supply management and performance standards.


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Director, Indian Health Service

INDIAN HEALTH SERVICE
REGIONAL SUPPLY SERVICE CENTER
ORGANIZATION & STAFFING CHART

DIRECTOR, SERVICE & SUPPLY CENTER
CO-660-05/06

SECRETARY
GS-0318-5

QUALITY ASSURANCE SPECIALIST
CO-1910-05

DEPUTY DIRECTOR, SSC
GS-2003-12

BUDGET ANALYST
GS-0560-07/09

SUPV. INVENTORY MGMT SPEC
GS-2010-11

INVENTORY MGMT SPEC
GS-2010-7/9

SUPPLY TECH (OFF AUTO)
GS-2005-6

SUPPLY TECH (OFF AUTO)
GS-2005-6

SUPPLY TECH (OFFICE AUTOMATION)
GS-2005-6

SUPV. PURCHASING
GS-1105-9

PURCHASING AGENT
GS-1105-7

CLERK TYPIST
GS-0322-4

MATERIALS HANDLER FOREMAN
WS-6907-05/06

MVO-MATERIALS HANDLER
WG-5703-06

MVO-MATERIALS HANDLER
WG-5703-06

MATERIALS HANDLER
WG-6907-06

MATERIALS HANDLER
WG-6907-06

MATERIALS HANDLER LEADER
WL-6907-06 or WS-6907-04

MATERIALS HANDLER
WG-6907-06

MATERIALS HANDLER
WG-6907-06

MATERIALS HANDLER
WG-6907-06

MATERIALS HANDLER
WG-6907-06

NOTE:

NUMBER OF POSITIONS REQUIRED FOR SUPPLY TECHNICIANS
AND MATERIALS HANDLERS MAY VARY BASED ON WORKLOAD.

SOME MATERIALS HANDLER POSITIONS COULD BE CHANGED
TO PACKER (WG-7002-06) POSITIONS IF NEED EXIST.

NUMBER OF DRIVERS (MVO) MAY VARY BASED ON
REQUIREMENTS AND MVO GRADES ARE BASED ON SIZE/TYPE OF
VEHICLE OPERATED.